MONTHLY Review

FEDERAL RESERVE BANK
OF MINNEAPOLIS

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Current conditions . . . .

Credit tightens as business pace expands

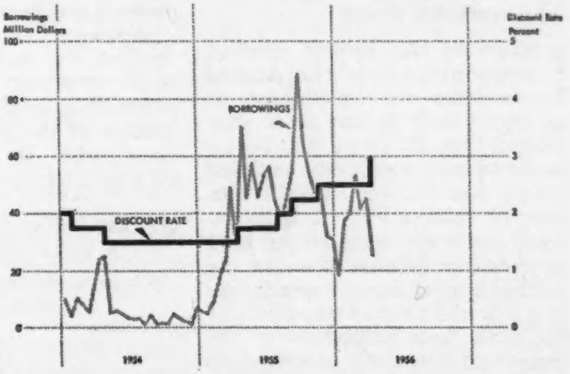
THE RAISING of the discount rate from 2½ to 3 percent by the Federal Reserve Bank of Minneapolis on April 13 focuses attention on the current economic situation. This action indicates the general concern by the Reserve authorities with rising levels of bank credit and recent advances in many wholesale and spot commodity prices.

The higher discount rate is one factor which it is hoped will tend to slow the demand for more credit, particularly where such borrowings may result in adding further to inflationary pressures. When business is moving at a high level and loans are at record proportions, it seems important to allow higher credit costs to place restraint on marginal users of credit. Consideration of these factors persuaded the Minneapolis Federal Reserve Bank in mid-April to raise the discount rate a full ½ percent.

A rising level of non-agricultural prices is of particular disadvantage to the Ninth district economy with its relatively large dependence on agriculture. Price inflation at this time would add little to the demand for farm products. Yet, price inflation, should it occur on a broad scale, might soon be reflected in higher costs of farming. Hence the farm price-cost squeeze might be expected to tighten rather than ease.

Beneath its financial superstructure – somewhat tightened of late–the economy continues to perform with seemingly tireless vigor. The general high level of business activity in the Ninth district lends regional substance to such an impression. Specifically, the business record for the first quarter of 1956 makes this sort of comparison with the first quarter of 1955:

BORROWINGS AND DISCOUNT RATES AT THE MINNEAPOLIS FEDERAL RESERVE BANK, 1954-1956



Borrowings by member banks during the past year at the Federal Reserve Bank have been the highest in more than 20 years in spite of higher costs of borrowing.

Bank debits	up	9%
Electric power production*	up	12%
Employment, non-agricultural	up	3%
Manufacturing employment	up	6%
Av. weekly earnings, manufacturing	up	7%
Unemployment	down	21%
Department store sales	up	7%
Building permits, valuation	up	2%
Construction contracts awarded	up	1%
New car registration	down	3%
Cash farm income (estimate*)	down	1%
Prices received by farmers (Minn. unadjusted)	down	6%

*January-February only.

The above statistics indicate particularly the current strength in employment, wages and construction compared with a year ago. Cash farm income level is being maintained at near year-ago levels, thanks to the good crops of last season and high livestock numbers on farms.

Perhaps the weakest element in the district's current economic picture is the relatively low level of prices received by farmers, which in mid-March was 6 percent below that of a year earlier. However, prices received by farmers have registered approximately a 3 percent gain since the 1955 low point of last December.

It is significant that in recent weeks both the Wholesale and Basic Commodity price indexes have been advancing. Thus far the Consumer Price Index is steady, but, if the other two indexes continue to advance, it may be only a short time before this index also will drift upwards. This will most certainly be true if recent trends in processed food prices are maintained.

Following are summaries that highlight the current economic scene in the Ninth district:

District security expenditures follow national trend

FOLLOWING the Korean conflict, percentagewise the Armed Forces were not demobilized on as large a scale as they were after World War II. There was no return to peace; a cold war replaced the hot one. Although reduced substantially after mid-1953, large national security expenditures have continued year after year. In the federal budget these expenditures have hovered close to two-thirds of the total. As a proportion of the federal government's purchases of goods and services, which are only a part of the budget, they have ranged from 86 percent to 89 percent of the total.

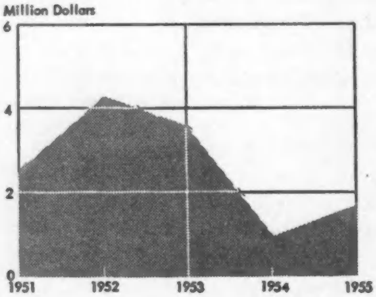
In addition to the absolute decline in expenditures the growth in the civilian economy, especially in the past year and a half, has reduced the relative significance of national security expenditures. These have lost some of their importance in providing some crucial props to the economy as was the case a few years ago. National security expenditures now account for about 10 percent of a $400 billion gross national product (as compared to 14 percent during the Korean war).

In the Ninth district national security expenditures figures have declined at about the same rate as national figures. The amount of military prime contracts let to firms in the four states wholly in the Ninth district in fiscal years 1955 and 1956 was 1.2 percent of the national total. The percentage of the total in preceding years varied only a few tenths of a percent.

In the district economy, as in the rest of the nation, national security expenditures have lost some of their significance. During the Korean conflict the amount of military prime contracts awarded to firms in the four district states rose to 6 percent of the personal income in these states. In recent years the amount of contracts let has dwindled to where it ranges between 1 and 2 percent of the personal income.

MILITARY PRIME CONTRACT AWARDS IN FOUR DISTRICT STATES*

*Minnesota, Montana, North Dakota and South Dakota



Source: Military Prime Contracts, by State, Office of Assistant Secretary of Defense.

Nevertheless, the type of contracts let to firms in this district during the first three and one-half months of this year does provide some insight into the significance of national security expenditures to our regional economy. Several air bases are under construction. Contracts let for airport construction aggregate $13.5 million. Purchases of food and food products have been relatively important in this area, over $2 million in contracts are let for such products. Airplane parts and service are important and undoubtedly will grow in importance as air bases are placed in operation. Now over $900,000 of such contracts are let. Firms in this district manufacture specialized navy equipment. Such contracts totaled over half a million dollars. A long array of other commodities and services are contracted for—dental and surgical apparatus and supplies, automotive repair parts, petroleum products, paper and paper products and research services. The amounts show that obviously the dependence of business firms on defense contracts has been declining.

Fewer cattle on feed

THERE WERE 8 percent fewer cattle and calves on feed than last year in the 14 major feeding states, according to the USDA's spring estimate. The number was estimated at 4.2 million head, 16 percent fewer than were on feed January 1. The number placed on feed in these states was 3 percent less than during the same period last year, while marketings of fed cattle were 13 percent larger.

For the nine corn belt states included in this group, the decrease was 9 percent from a year ago and 12 percent below January 1.

In Minnesota the number of cattle in feedlots was just the same as a year ago. South Dakota numbers were down 21 percent.

District farm income

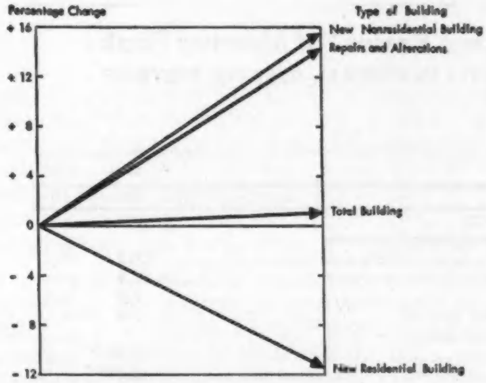
CASH RECEIPTS of Ninth district farmers during January-February of 1956 averaged just 1 percent below a year ago, according to U. S. Department of Agriculture estimates. The following comparisons are based on cash receipts from farm marketings in the four Ninth district states for the combined months of January-February 1956 compared with 1955.

Minnesota	+7%
North Dakota	—2%
South Dakota	—24%
Montana	+8%

Construction activity continues at a high level

FOR THE first quarter of 1956 countrywide and Ninth district construction activity equalled or exceeded the high levels achieved a year ago.

The first construction indicator, the dollar volume of new construction put in place throughout the nation during the first three months of 1956, was $8.5 million—equal to the 1955 figure. While the total remains the same, there were significant shifts for different types of construction. The declines in private-residential and public-industrial construction were offset by increases in private-commercial and industrial building and in highway construction. Total construction contract awards (a second indicator of construction activity) for the first quarter of 1956 were 17 percent above the levels of a year ago for the nation and 1 percent above for the district.



PERCENTAGE CHANGE
in
DOLLAR VALUATION
of
BUILDING PERMITS
By type of building, Ninth Federal Reserve District
(First quarter . . . 1956 compared to 1955)

Source: Building permit data compiled by Minneapolis Federal Reserve Bank.

A more complete first quarter picture for the district based on building permit data (a third indicator of construction activity) is shown on the accompanying chart. As the chart indicates, the dollar valuation of total building for the first quarter of this year (based on returns from 437 district cities) rose 2 percent, only slightly above the first quarter of 1955. Increases were especially noticeable in new nonresidential building (up 16 percent) and for repairs and alterations (up 15 percent). The total valuation of new residential building, by contrast, was still down about 12 percent from a year ago. Nevertheless, current information from builders indicates that activity in home building has begun to pick up. The large amount of residential contract awards already indicates an upturn. For the first quarter the volume of these contract awards was 26 percent above a year ago in the district and 8 percent above a year ago for the nation.

Total building permit valuations with the corresponding percentage changes in the various states of the district are shown in the table below. Very evident is the sharp relative increase in Montana, Northwestern Wisconsin and in South Dakota. In metropolitan areas the drop was due to a drop of 4 percent in Minneapolis-St. Paul and a 19 percent drop in Duluth-Superior. The drop in Minneapolis-St. Paul, which significantly affects the Minnesota and district totals, was largely the result of a substantial decline in new home construction in the Twin Cities.

The construction valuation figures used above are all stated in current-dollar amounts. Thus, the changes in real activity are not quite as great as the dollar figures indicate because building costs continue to rise. The composite construction cost index of the Department of Commerce rose from 122.7 in January 1955 to 127.7 in January 1956. For more than a year this index has gone up each month and a slow increase is expected to continue. Nevertheless, the dollar increases were sufficient to indicate an increase in the real volume of most types of construction.

Total Building Permit Valuations, By State, First Quarter 1955 and 1956
(Dollar Amounts in Thousands)

	1955	1956	Percentage Change
Michigan*	912	846	— 7
Minnesota	59,937	54,772	— 9
Montana	4,619	7,060	+53
North Dakota	2,435	1,658	—32
South Dakota	4,054	6,347	+57
Wisconsin*	2,035	4,870	+139
Non-Metropolitan areas	23,449	27,399	+17
Metropolitan Areas	50,543	48,154	— 5

*Ninth district portion only

Grain stocks on farms

NINTH DISTRICT farmers held larger stocks of wheat and feed grains on April 1 of this year compared with a year ago. Stocks of flax and soybeans were less than a year ago. The figures below show stocks on farms and major grains on April 1 in millions of bushels.

Stocks of Grains on Farms In Four District States April 1 In Millions of Bushels

	1955	1956
Corn	197.5	206.8
Wheat	78.6	121.8
Oats & Barley	251.7	263.0
Flax & Soybeans	31.3	18.2

END

"Operating Ratios" of Member Banks

MINNEAPOLIS FEDERAL RESERVE DISTRICT

	1955	1954
Number of Banks	471	470
SUMMARY RATIOS		
Percentage of total capital accounts		
1. Net current earnings before income taxes	17.3	17.2
2. Profits made before income taxes	15.0	16.1
3. Net profits	9.2	10.5
4. Cash dividends declared	3.8	3.7
Percentage of total assets		
5. Total earnings	3.54	3.41
6. Net current earnings before income taxes	1.20	1.16
7. Net profits	.66	.72
SOURCES AND DISPOSITION OF EARNINGS		
Percentage of total earnings		
8. Interest on U. S. Government securities	24.7	25.0
9. Interest and dividends on other securities	5.3	5.1
10. Earnings on loans§	54.7	54.1
11. Other current earnings	15.3	15.8
Total earnings	100.0	100.0
12. *Service charges on deposit accounts (Included in item 11)*	*6.4*	*6.4*
13. *Trust department earnings (Included in item 11)**	*2.5*	*2.5*
14. Salaries and wages	31.1	31.1
15. Interest on time deposits	13.8	13.8
16. Other current expenses	21.1	21.0
17. Total expenses	66.0	65.9
18. Net current earnings before income taxes	34.0	34.1
19. Net losses, or recoveries and profits (− or +)‡	−2.2	− .5
20. Net increase, or decrease, in valuation reserves (− or +)	−2.1	− 1.4
21. Taxes on net income	11.1	11.0
22. Net profits	18.6	21.2
RATES OF RETURN ON SECURITIES AND LOANS		
Return on securities:		
23. Interest on U. S. Government securities	2.23	2.15
24. Interest and dividends on other securities	2.26	2.32
25. Net losses, or recoveries and profits on total securities (− or +)‡	− .05	+ .12
Return on loans:		
26. Earnings on loans§	5.76	5.70
27. Net losses, or recoveries on loans (− or +)‡	− .10	− .15
DISTRIBUTION OF ASSETS		
Percentage of total assets		
28. U. S. Government securities	37.5	38.1
29. Other securities	8.4	7.6
30. Loans	34.2	32.9
31. Cash assets	19.0	20.6
32. Real estate assets	.7	.6
OTHER RATIOS—In Percentages		
33. Capital accounts to total assets	7.4	7.1
34. Capital accounts to total assets less government securities and cash assets	18.2	18.3
35. Capital accounts to total deposits	8.0	7.7
36. Time to total deposits	38.0	37.5
37. *Interest to time deposits**	*1.38*	*1.34*

Note: Balance sheet figures used as a basis for 1955 ratios are averages for amounts reported December 31, 1954, June 30 and October 5, 1955.

§ Includes service charges and other fees on loans.

‡ Excludes transfers from and to valuation reserves.

* Banks reporting zero amounts were excluded in computing this average and figures are not shown where there are fewer than three banks in a group.

gross + net earnings per dollar of assets went up

the ratio of expense to earnings was hardly changed

interest rates continued to edge up

more loans also helped earnings

time deposits yielded more to their owners

Member bank operating ratios

MEMBER BANKS periodically submit condition statements and reports of earnings and dividends to the Federal Reserve Bank of Minneapolis. From information contained in these financial records, 37 operating ratios are computed for each of the 471 district member banks.

One purpose of this effort is to aid the banker in comparing his own operating experience with that of other banks. For this reason each banker is supplied with a copy of his own operating ratios together with an average of the ratios for other member banks, classified into five size groups. The average of the ratios for all Ninth district member banks in 1954 and 1955 appears on page four.

It is important to emphasize that the published averages of member bank operating ratios are *unweighted* averages; that is, each bank—regardless of size—has equal influence in the determination of the average ratios.

One of the first ratios the banker looks at is *number 5*, the ratio of total earnings (gross) to total assets. A bank with a higher-than-average figure for this ratio is likely to show a higher-than-average ratio of loans to total assets (ratio 30), or a higher-than-average rate of return on loans or investments (ratios 26, 24 and 23). The sources of gross earnings are indicated by the ratios 8 through 11.

Since most bankers are anxious to limit, as much as possible, the proportion of gross earnings which goes to expense, they will find ratios 14 through 17 useful. These ratios indicate the proportion of gross earnings which is absorbed by particular expense items and by total expense.

It is clear that a bank can have a very high gross-earnings ratio and yet, if a great deal of expense is encountered in producing this revenue, the bank may be no better off earnings-wise than another bank with a smaller gross earnings ratio but with a smaller ratio of expense to gross earnings (ratio 17).

For this reason, ratio *number 6* is perhaps the most meaningful to the banker who seeks to make net earnings as large as possible. Ratio *number 6* gives total earnings *minus* total expense, expressed as a percentage of total assets. When this ratio is high for a particular bank, relative to the average for other banks, it means that the bank is especially successful in limiting its expense, or that its gross-earning rate on assets is high, or both.

Where earnings or profits are expressed as a percentage of capital accounts (ratios 1, 2 and 3), differences in relative capital margins must be considered in making comparisons between banks. Thus, where two banks have the same ratio of net current earnings to total assets (ratio 6), the ratio of net current earnings to capital will be higher for the bank with the least capital 'margin.' The ratio of earnings to capital, then, is influenced not only by income and expense but also by capitalization.

Sometimes, differences in practices between banks destroy the comparability of the ratios. If the owners of a bank, for example, are also on the staff, they may prefer to take their profits in the form of wages and salaries rather than in the form of dividends. In this case the wage bill will be higher and profits lower than for an otherwise comparable bank.

Differences in the ratios also reflect the different environments in which banks operate. In a particular community there may be very little demand for bank loans; in this case the ratio of loans to total assets, and of gross and net earnings to total assets may be lower than the average because of the large fraction of total assets in the form of securities. Securities, of course, yield less than do loans.

The balance sheet figures used in computing the ratios are averages of amounts reported on three Call dates; the use of the averages makes for a more accurate representation of the condition of a bank during the year than if figures for only one Call date were used.

The averages of member bank operating ratios, such as those for 1954 and 1955* which appear on the opposite page, not only afford bankers with a tool for comparison but also constitute an historical record of bank operations. By reviewing the average ratios for the postwar period, we can observe the impact of swelling loans and rising interest rates on the financial statements of banks.

Thus, in 1945 when loans comprised only 13 percent of total assets and the rates of return on loans and on investments were 5.6 percent and 1.6 percent respectively, the average ratio of total revenue to total assets was 2.2 percent. In 1955 loans comprised over 34 percent of total assets (ratio 30) while rates of return averaged 5.76 percent on loans (ratio 26) and 2.2 percent on securities (ratios 23 and 24). Total revenues as a proportion of total assets were, as a result, 3.54 percent in 1955 in contrast to the 2.2 percent ratio of 1945. Also contributing to the rise in the gross-earnings ratio was a decline in cash balances, relative to total assets.

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*A copy of the 1955 study—which shows operating ratios by size of bank—may be obtained on request.

Intermediate credit--

the need and its problems

Although present lending practices already provide much of the credit for intermediate-term needs, larger capital requirements on the farms stress use of credit that can be repaid over a period of more than one year. Procedures must be sound for both borrower and lender, if best credit service is to be provided.

FINANCIAL requirements of farm operations have focused new attention on loans of 'intermediate' term—loans written for maturities between those of short-term seasonal loans (of one year or less) and long-term credit secured by real estate. Such 'intermediate' loans are appropriate for many of the larger investments on farms today, in cases where the amount is too large to be repaid out of one year's income and the investment itself is not expected to return its cost in a single season.

Banks are important in this lending picture because they now provide roughly 80 percent of all non-real-estate credit—both short and intermediate term — loaned to farmers by lending institutions and the amounts used are rising.

Change brings adjustments

Changes in agriculture — larger unit size, mechanization, constantly improved production and operating techniques — have required greater amounts of operating capital. Larger investments in operating assets such as machinery and equipment have made intermediate credit an important part of borrowed capital. How adequately such needs are provided for is obviously important to both banking and agriculture.

Much intermediate credit now provided

Much of the non-real-estate credit now being extended to farmers by banks is actually intermediate-term in nature, even though not written specifically on these terms.

Many lenders, for instance, write farm loans to mature within one year or less, yet with an understanding that not all the amount due is expected to be repaid on the maturity date. Part of the loan may be paid and the remainder rewritten into a new note. This may also include additional credit based on a new appraisal of the needs of the farming operation.

Intermediate-term credit extended on the instalment basis has also been increasing in recent years. Banks have loaned money — both directly and through dealers — to buy farm machinery, equipment and building materials, with terms ranging in many instances from two to four years. FHA (Title I) loans are also used to provide some credit of this type.

Because of the many different considerations involved in each individual loan, there is frequent misunderstanding about the amount and extent of such lending by banks. However, a very substantial amount of the non-real-estate credit loaned to farmers represents credit which is not expected to be repaid and will not be repaid within the year. Such credit is partly satisfying the needs of longer maturity credit that is referred to as 'intermediate term.'

Fundamental problems

Procedures for handling intermediate-term credit pose two major problems: (1) providing adequate checks and controls to the lender, and yet (2) assuring the borrower that credit will be extended to him in a consistent manner over a period of time according to his reasonable needs.

1. *The review function* is inherent in the position of the lender, whose lending operations must be maintained on a sound basis. (Not only is it the lender's responsibility to protect the interests of his depositors, but lenders are themselves subject to rigid supervision.) Proper supervision and control suggest that credit terms be sufficiently flexible to enable lenders to review a loan at any time that unforeseen circumstances suggest its condition may be deteriorating. Any terms or procedures which prevent such review would ultimately lead to more restrictive loan policies, resulting in *less* credit service.

In actual practice periodic review of farm loans not only provides necessary control from the standpoint of the lender but can aid the borrower as well. Both parties can review the progress and condition of a credit line. As repayment progresses they can, if necessary, adjust the terms more realistically to the income and financial needs of the borrower. In many cases this may result in the extension of more credit to the borrower, and on terms more convenient to him, than would otherwise be possible.

2. *Assurance of the borrower* is important, too. If the stated maturity of the loan is for a short period, he is entitled to reasonable assurance that the credit he needs will be renewed and extended as planned, and over a reasonable period of time. Lacking such assurance, he may have to forego long-term planning which could achieve greater efficiency and larger profits for his business. In order to plan ahead, he needs to know what conditions he must satisfy in order to be certain of obtaining the credit needed for his business.

Banks show the way

Practices adopted by a number of individual banks (with many variations, of course) point to some of the ways that such considerations can be combined into a practical credit policy which serves the interests of both borrower and lender in meeting intermediate-term credit needs.

A number of banks make farm loans for maturities of no more than one year, but they do so on the basis of a definite understanding with the borrower that his loans will be renewed and extended according to agreed conditions. This periodic review gives the bank an opportunity to bring its farm chattels up to date, to obtain new financial statements, to review the financial progress (or lack of it) of the borrower, and to adjust and adapt the terms of the credit to the borrower's most current needs.

The necessary understanding with the borrower is sometimes achieved by a thorough discussion of the terms and conditions under which the loan may be renewed. Often, effective understanding may be based largely on good faith and confidence between borrower and lender, even with no specific terms discussed. Such understanding needs to be complete on the part of the borrower as well as the lender, however. The understanding is incomplete if the borrower is 'uncertain' as to the basis on which future credit will be made available.

Many banks use the comment sheet in their loan file to make a written record of the terms discussed. And lenders, generally, emphasize the value of written records of such understandings, since the memory of individuals is notoriously inclined to err.

Other banks have used a notation on the face of the note itself to indicate the amount to be repaid on the maturity date (or other conditions to be met by the borrower) in order to qualify for renewal. While such notations may not be legally binding, they describe in definite terms the understanding that exists when the loan is made.

In still other instances, banks have extended credit for maturities of two to five years on the basis of a written notation of understanding as to how the loan will be repaid and other terms to be met.

In the final analysis the degree of understanding—whether verbal or in writing — between borrower and lender depends largely on how thoroughly the terms of the loan are discussed. If a formal written statement of these terms offers greater understanding to the borrower — then experience indicates this procedure can also be used without unduly restricting the process of review and adjustment.

Credit analysis is more important

Complete credit information and thorough loan analysis are perhaps even more important for intermediate-term credit than for other types of farm credit. Rapidly changing economic conditions, as well as changes in farm technology, suggest that the lending risks may in some instances become greater as the maturities of loans are extended.

There is no magic formula. Neither written statements of understanding nor periodic review can replace the necessity to obtain adequate credit information — and to appraise and evaluate the information realistically. Furthermore, while there is a definite usefulness in periodic review of loans, there is a substantial element of 'unrealism' in any procedure that attaches a one-year (or less) maturity to loans that are not intended to be repaid in that length of time. This may result in having less knowledge of the actual condition of a loan than if it were written on terms accurately describing the intended repayment schedule. More realistic terms would enable a bank to analyze its farm loan portfolio more exactly, with a more accurate measure of liquidity.

Simply limiting loans to a maturity of one year does not guarantee that the necessary analysis and appraisal have taken place. A loan written on longer terms, but on the basis of careful examination, may in fact be a sounder loan than one written for shorter terms where the initial study and analysis were inadequate. Thus, in intermediate-term lending as in other types, sound lending should emphasize adapting terms to the needs and repayment capacity of the borrower —with, of course, the necessary procedures for keeping credit information up to date.

Intermediate-term loans are used for . . .

Loans of intermediate term seem logically suited to finance purchases of major operating assets—especially when the amount involved is too large to be repaid out of a farm operator's cash reserves, or out of one year's income, and when the investment can be expected to produce a return over a period of several years.

Major machinery and equipment items, though depreciable, are fairly certain of a productive life of at least three to five years. To require that such investments be repaid out of a current year's income might in many cases impose severe financial strain on the farm business. Repayment over more than one year is frequently provided through a regular farm chattel loan, or through instalment loans made to the farmer either directly, or indirectly through a dealer.

Investments in dairy or breeding livestock also can be expected to produce income over a period of years. A one-year loan for such purchases may often be less realistic than one of longer maturity. And in many cases bulk tank equipment for dairy farms are financed on 20-to-40-month maturity, with payments at a flat rate per hundredweight of milk produced.

Probably most loans for the purchase of commercial fertilizer—since the major fertilizer benefit is received during a single crop year—are properly handled as a short-term, seasonal crop-expense loan. However, loans for practices such as liming, tiling, terracing, or other permanent and semi-permanent improvements are often financed with intermediate credit — when the amount is not large, relatively, and repayment can be made in a few years. For major permanent improvements to land and buildings, real estate may often be an appropriate security for the loan, and real estate credit may be an appropriate source of funds.

Bank liquidity

One of the important problems in bank lending is to maintain the necessary degree of liquidity in loans and investments. Since many loans now written on a short-term basis are not expected to be repaid fully on maturity, use of intermediate maturities on such loans would not affect the real liquidity of a bank significantly. And real liquidity might be even better known if loan terms were more realistic.

Other facts which bear on the ability of a bank to make loans on intermediate terms are the large investments in government securities which banks have held in recent years, and the fact that many banks find it impossible to invest sizable amounts in real estate credits. Although liquidity is an important consideration in bank lending, it is not likely that it alone would limit the extension of credit on intermediate terms in many cases. *Sound loan analysis is probably the prime consideration in such lending.*

Changing conditions

Along with the changes in both technology and the financial structure of the farm business which have occurred in recent years, it is inevitable that agriculture's need for capital and credit also will change. Adjustments in the services provided to agriculture by lenders also may therefore be expected.

Careful planning and leadership on the part of banks can insure that such changes observe sound procedures, protecting the best interests of borrower and lender alike. Failure to exercise this leadership or to plan intelligently for the adjustments to come, could result in changes derived by default rather than by design, to the detriment of both borrowers and lenders.

END

ECONOMIC *Briefs*

SIGNIFICANT HAPPENINGS IN THE NINTH DISTRICT

1-New Montana power plant

Montana-Dakota Utilities will begin construction in June of an $8-million, 44,000-kilowatt steam-generating power plant at Sidney, Mont.

The new plant will double the company's generating capacity in that area.

2-Warehouse expansion in Fargo

Minneapolis-Moline Co. is planning a new $400,000 office-and-warehouse building in Fargo, N. D. as part of its sales and distribution expansion.

3-Airline plans T. C. main base

Northwest Orient Airlines contracted to lease a $15-million, 800,000-square-foot main overhaul base and general office to be built by the Metropolitan Airport Commission on 76 acres adjoining Wold-Chamberlain airport south of Minneapolis. Under the leasing agreement, the airline will pay for the new base over a 30-year period.

Preliminary construction will begin this spring.

4-Michigan iron plant producing

Production at the new pelletizing plant of the Marquette Iron Mining Company, Republic, Mich., was set to begin in April. The newly-formed company is owned by Cleveland-Cliffs Iron Co., which has a 47½ percent interest and will operate the low-grade iron ore mine and concentrate plant.

Wheeling Steel Corp. and Inland Steel Co. recently announced their acquisition of, respectively, 10 percent and 20 percent interests in Marquette Iron.

Note: The new ore-sizing plant of Oliver Iron Ore Mining Division (of U. S. Steel) at Virginia, Minn. will not carry out any sintering of ores as reported in the March **Economic Briefs.** Sintering will be done after the ore reaches Lower Lake ports.